

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01

H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 /108 W

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R 301255Z OCT 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 4114

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BAGHDAD POUCH

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY MOSCOW

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY TOKYO

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AMEMBASSY CAIRO

AMEMBASSY ANKARA

AMEMBASSY LONDON

C O N F I D E N T I A L SECTION 1 OF 2 TEHRAN 10609

E.O.11652: GDS

TAGS: ENRG, IR, UR, GW, AU, JA, FR

SUBJ: REVIEW OF NATIONAL GAS POLICY AND PROJECTS

REFS: (A) TEHRAN 4531 (B) TEHRAN 3214 (C) TEHRAN 10960 OF 12/30/74

(D) VIENNA 8793

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1. SUMMARY: THIS CABLE UPDATES OUR PREVIOUS REPORTING ON GOI GAS PROJECTS AND POLICY. DELINEATION DRILLING TO PROVE OFFSHORE RESERVES FOR KALINGAS AND OTHER PROJECTS IS SPEEDING UP, AS IS SAME KIND OF PROGRAM IN ONSHORE EGOCO AREA. J.F. PRITCHARD IS DONE SOME OF PRELIMINARY DESIGN FOR PROJECT, WHICH HAS GOOD CHANCE OF BEING COMPLETED MORE OR LESS ON SCHEDULE. TRILATERAL "SWITCH DEAL" IS NEARING CONCLUSION OF FINAL DETAILS. PLANNING OF EL PASO/ DISTRIGAS LNG PROJECT IS GOING AHEAD ACTIVELY AND NOW HAS SUPPORT OF BELGIAN GOVERNMENT. THERE IS SOME CONCERN HERE ABOUT USG ATTITUDE TOWARD THIS PROJECT AND QUESTIONS OF WHETHER EL PASO WILL STAY IN IF IT CANNOT OBTAIN APPROVAL OF IMPORTS TO U.S. IT MIGHT BE USEFUL FOR U.S.-IRANIAN RELATIONSHIPS, U.S. BUSINESS, AND OTHER U.S. GOALS IF USG SUPPORTS PROJECT AND EL PASO PARTICIPATION EVEN IF LITTLE OR NONE OF LNG IS IMPORTED INTO U.S. DOMESTIC GAS PROJECTS ARE MOVING AHEAD RAPIDLY. PLANNING OF CONSTRUCTION OF SECOND PIPELINE TO RUSSIA IN VERY EARLY STAGES. THIS PIPELINE COULD OFFER SIGNIFICANT OPPORTUNITIES FOR AMERICAN BUSINESS. END SUMMARY.

2. KALINGAS: AS PREVIOUSLY REPORTED, KALINGAS JOINT VENTURE BETWEEN NIGC AND FOREIGN CONSORTIUM IS LEGALLY CONSTITUTED AND WORK IS UNDERWAY. THEY NOW HAVE ONE NEW JACK-UP RIG DRILLING ON THE OFFSHORE C-STRUCTURE. A SECOND RIG IS EXPECTED TO ARRIVE IN ABOUT THREE WEEKS. KALINGAS'S RESERVOIR CONSULTANTS, DEGOLYER-MCNAUGHTON OF U.S. WANTS TO SEE DATA ON THE RESERVOIR, FLOW RATES, AND ANALYSIS OF GAS FROM FOUR OR PREFERABLY FIVE WELLS BEFORE THEY WILL GIVE A CERTIFICATE OF RECOVERABLE RESERVES. KALINGAS NEEDS THIS CERTIFICATE IN ORDER TO ARRANGE FINANCING FOR THE PROJECT. THEY ALSO NEED DETAILED ANALYSIS OF THE COMPOSITION OF THE GAS IN ORDER TO DESIGN PROCESS AND LIQUEFACTION PLANT. THEY NOW HOPE TO HAVE SUFFICIENT DATA BY MID-TO-LATE-1976. IN SPITE OF INADEQUATE DATA, HOWEVER, J.F. PRITCHARD AND COMPANY HAVE BEGUN PART OF BASIC DESIGN OF THE PLANT. IF DRILLING PROGRAM CONTINUES AS PRESENTLY ANTICIPATED, PLANT SHOULD BE ON STREAM WITH FIRST 800 MILLION CUBIC FEET PER DAY OF LNG (DESTINED FOR JAPAN) MORE OR LESS ON SCHEDULE--THAT IS, BY 1980-81.

3. EGOCO AREA: EXPLORATORY DRILLING HAS BEEN ACCELERATED IN THIS HIGHLY PROMISING AREA WITH FOUR RIGS NOW WORKING. AS REPORTED, THREE RICH GAS-BEARING STRUCTURES HAVE ALREADY BEEN FOUND. HOPE IS THAT THIS AREA WILL BE ABLE TO CONTRIBUTE LARGE CONFIDENTIAL

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AMOUNTS OF GAS TO: (A) THE GAS INJECTION PROGRAM IN THE KHUZESTAN FIELDS; (B) THE TRILATERAL "SWITCH DEAL" AMONG IRAN, THE SOVIET UNION AND WEST GERMAN CONSORTIUM HEADED BY RUHRGAS; AND (C) THE EL PASO DISTRIGAZ-NIGC LNG EXPORT PROJECT. PLANNED AMMONIA-BASED FERTILIZER PROJECTS WITH GARDENIER OF FRANCE, ANIC OF ITALY, AND AN INDIAN FIRM (SOHUJAIN?) MAY ALSO DEPEND ON THIS GAS. WE UNDERSTAND THAT PLANNING OF THESE FERTILIZER PROJECTS HAS BEEN HELD UP PENDING FURTHER INFORMA-

TION ON GAS RESERVES AND OTHER PLANNED USES FOR AVAILABLE GAS.

4. TRILATERAL "SWITCH DEAL" HAS BEEN EXTENSIVELY REPORTED BY THIS AND OTHER POSTS. AT RECENT MEETING IN MOSCOW FURTHER PROGRESS WAS MADE IN WRAPPING UP DEALS. NIGC EXPECTS ALL DETAILS TO BE SETTLED BEFORE END OF NOVEMBER. T MOSCOW MEETING NIGC DROPPED ITS OBJECTION OT DIRECT PARTICIPATION BY GAZ DE FRANCE AND OEMV OF AUSTRIA. AS REPORTED BY EMBASSY VIENNA IN REFTEL D, THESE TWO COMPANIES HAVE NOW FORMED CONSORTIUM WITH RUHRGAS TO BUY THE GAS THAT WILL BE DELIVERED BY THE SOVIET UNION UNDER THIS TRILATERAL PROJECT. WE UNDERSTAND DETAILS REPORTED IN VIENNA REFTEL TO BE CORRECT EXCEPT THAT WE WERE TOLD SOVIET GAS FOR WESTERN EUROPEAN CONSORTIUM WILL PROBABLY COME FROM TYUMEN. FURTHERMORE, IT IS OUR UNDERSTANDING THAT 2 BILLION CUBIC FEET PER DAY OF IRANIAN GAS WILL NOT BE USED AS COMPRESSOR FUEL, BUT THAT IT IS IN EFFECT SIMPLY PART OF THE PAYMENT TO THE SOVIETS FOR THEIR ROLE IN THE AGREEMENT. PAYMENT TO THE SOVIETS, WE UNDERSTAND, IS BASED ON A HYPOTHETICAL COMPUTATION OF AMOUNT OF GAS THAT WOULD HAVE BEE NECESSARY TO POWER COMPRESSORS IF GAS WERE TRANSMITTED DIRECTLY FROM IRAN TO WESTERN EUROPE. THE 2 BILLION CUBIC FEET PER DAY AMOUNTS TO ONLY A FRACTION OF THE FUEL THAT WOULD BE NECESSARY TO POWER COMPRESSORS ON AN ACTUAL TRANSMISSION LINE FROM IRAN TO EUROPE. IRANINAN SOURCES SAY ADDITIONAL 2 BILLION CUBIC FEET THAT WILL BE DELIVERED TO THE SOVIET UNION WILL BE USED BY SOVIET FACTORIES AND CONSUMERS IN THE CAUCASUS THOUGH SOME OF IT MAY ENTER EXISTING NETWORK OF TRANSMISSION LINES TO MOSCOW.

5. EL PASO DISTRIGAZ - NIGC LNG PROJECT: PARTIES TO THIS PROJECT ARE NOW MEETING IN BRUSSELS. FURTHER DETAILS SHOULD BE AVAILABLE NEXT WEEK UPON RETURN TO TEHRAN OF IRANIAN OFFICIALS ATTENDING THIS MEETING. EMBASSY BRUSSELS MAY ALSO BE ABLE TO CONFIDENTIAL

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OBTAIN INFORMATION FROM GOB. BELGIAN AMBASSADOR HERE CALLED ON

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C O N F I D E N T I A L SECTION 2 OF 2 TEHRAN 10609

AMBASSADOR HELMS OCTOBER 29 TO DISCUSS THIS PROJECT, WHICH HE CLAIMS IS PROCEEDING RAPIDLY AND ON SOUND BASIS. HE NOTED THAT NEXT STEPS INVOLVE DRILLING AND EVALUATION OF GAS RESERVOIRS (DESCRIBED ABOVE), DETERMINATION OF ROUTE (LIQUEFACTION ON PERSIAN GULF AND SHIPMENT THROUGH SUEZ, OR ALTERNATIVELY, PIPE-LINE TO ISKANDERUN, TURKEY FOR LIQUEFACTION THERE), AND EL
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PASO'S OBTAINING REQUIRED USG APPROVALS AND LICENSES. HE SAID VERY IMPORTANT FACTOR, HOWEVER, IS THAT EL PASO REAMIN A PARTY T THE PROJECT EVEN IF IT IS UNABLE TO IMPORT GAS INTO U.S., BELGIAN AMBASSADOR FURTHER SAID HE HAD PUSHED GOB TO TAKE ACTIVE ROLE IN PROJECT FOR HE FELT THAT DISTRIGAZ NEEDED POLITICAL SUPPORT TO HANDLE EFFECTIVELY ITS END OF PROJECT. GOB, HE SAID, HAS ACCEPTED THIS ADVICE AND IS NOW ACTIVELY INVOLVED IN SUPPORTIN THIS VENTURE. IN THIS CONNECTION,

BELGIAN AMBASSADOR ALLEGED THAT A "BIG POLITICAL FIGHT" IS BREWING IN EEC OVER GAS SUPPLIES. RUHRGAS, HE SAID, WANTS TO PLAY BROKER ROLE IN PROVIDING MOST FUTURE GAS SUPPLIES FOR EUROPE. (COMMENT: THIS SEEMS INCONSISTENT WITH RUHRGAS' INITIATIVE IN BRINGING AUSTRIANS AND FRENCH IN AS PARTNERS IN "SWITCH DEAL.") BELGIAN AMBASSADOR ALSO MADE PLEA FOR AMBASSADOR HELMS' ASSISTANCE AT SOME FUTURE DATE IN OBTAINING LIQUEFACTION PLANT CONTRACTS FOR THIS PROJECT IN BELGIUM. PARTIES, HE SAID, HAVE MADE "VERBAL COMMITMENT" TO BELGIANS ON THIS COUNT. BELGIAN AMBASSADOR SAID HE HAS EXPENDED MUCH EFFORT IN TRYING TO GET IRAN-BELGIAN TRADE OFF GROUND AND ARGUED THAT PARTIES HAVE "MORAL OBLIGATION TO GIVE THIS BUSINESS TO BELGIAN FIRMS." AMBASSADOR HELMS WAS NONCOMMITTAL.

6. NIOC AND NIGC SOURCES HAVE GIVEN US ESSENTIALLY SAME ACCOUNT AS THAT OF BELGIAN AMBASSADOR. EMBOFF HAS EXPLORED ATTITUDES OF THOSE SOURCES CONCERNING IMPORTANCE TO KALINGAS AND EL PASO/ DISTRIGAZ PROJECTS OF EXPORTS TO U.S. MARKET AND IMPORTANCE TO GOI OF USG APPROVAL OF THEM. (KALINGAS PLANS EVENTUAL LIQUEFACTION OF 1.6 BILLION CFD OF GAS, WITH PART OF SECOND STAGE TO GO TO U.S.) WE HAVE TOLD THESE SOURCES THAT WE UNDERSTAND USG NOW CONSIDERING OPTIONS ON LNG IMPORT POLICY AND HAVE EXPRESSED OUR "PERSONAL" OPINION THAT USG MAY WELL DISCOURAGE LARGE SCALE LNG IMPORTS. OUR COMMENTS APPEAR TO HAVE SOMEWHAT MIXED RESPONSE: A CERTAIN ANNOYANCE THAT USG POSSIBLE CONSIDERING A SOMEWHAT NEGATIVE ATTITUDE, BUT FULL AWARENESS THAT IT WOULD BE TO THEIR ADVANTAGE TO FIND NEARER MARKETS. EMBOFF COMMENTED TO BOTH MOHSEN SHIRAZI (A DIRECTOR OF NIGC) AND PARVIZ MINA (NIOC DIRECTOR OF INTERNATIONAL AFFAIRS) THAT HE IS "SURPRISED" THAT GOI SHOULD EVINCE SO MUCH INTEREST IN US AS MARKET FOR IRANIAN LNG, GIVEN THAT HIGH ADDITIONAL TRANSPORT COST WOULD RESULT BOTH IN INORDINATE PRICES TO CONSUMERS AND LIMITED NETBACK TO IRAN. WOULDN'T EUROPE AND JAPAN BE FAR MORE LOGICAL MARKETS, CONFIDENTIAL

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WE ASKED? BOTH AGREED WITH THIS IDEA AND INDICATED IRAN WOULD BE SATISFIED TO FIND NEARER MARKETS IF THE MARKETS ARE INDEED THERE. BOTH, HOWEVER, SHARED BELGIAN AMBASSADOR'S VIEW THAT IT IS IMPORTANT THAT EL PASO REMAIN A PARTY TO ITS PROJECT WITH BELGIANS AND IRANIANS, DUE TO TECHNICAL, MANAGERIAL AND FINANCIAL ABILITIES. IT SEEMS TO US THAT THERE IS AN OPPORTUNITY FOR US HERE, EVEN IN EVENT THAT U.S. DETERMINES NOT TO IMPORT LARGE VOLUMES OF BASELOAD LNG. AN ATTITUDE ON OUR PART OF SUPPORT FOR EL PASO PARTICIPATION AND SUPPORT FOR PARTICIPATION BY U.S. FINANCIAL INSTITUTIONS AND CONTRACTORS IN EXECUTION OF SUCH A PROJECT WOULD OFFER THREE DIVIDENDS: (A) REASSURANCE TO THE IRANIANS THAT WE ARE NOT TRYING TO THWART THEIR DEVELOPMENT PLANS; (B) BUSINESS FOR U.S. FIRMS; AND (C) A SMALL INCREASE IN TOTAL WORLD SUPPLY OF ENERGY WHICH COULD IN FUTURE CONTRIBUTE TO PRESSURE ON OIL CARTEL.

7. FOREGOING COMPLETES SURVEY OF NATURAL GAS EXPORT PROJECTS. SMALLER DOMESTIC PROJECTS ARE PROCEEDING APACE. DAVY INTERNATIONAL, BRITISH FIRM, IS DOING BASIC AND DETAILED ENGINEERING DESIGN FOR PLANT TO PROCESS SAKHIS SOUR GAS AND EXPECTS TO GET CONSTRUCTION MANAGEMENT. BUTLER CULVERN (US) IS DESIGNING AND APPARENTLY WILL MANAGE CONSTRUCTION OF GAS PIPELINE FROM SAKHIS TO PLANNED 1400 MEGAWATT THERMOELECTRIC PLANT AT NEKA ON CASPIAN. PIPE FOR THIS LINE HAS BEEN BOUGHT FROM JAPANESE SUPPLIER. DEVELOPMENT OF QESHM ISLAND GAS FIELDS IS PROCEEDING AND CONTRACT HAS BEEN LET FOR DESIGN OF PIPELINE FROM QESHM TO BANDAR ABBAS.

8. WE WILL REPORT SOON ON STILL INCHOATE PLANS FOR CONSTRUCTION OF "IGAT-II" THE SECOND PIPELINE TO THE USSR FOR THE "SWITCH DEAL" AND FOR DOMESTIC CONSUMPTION. WILLIAM BROS. ENGINEERING (US) HAS CONTRACTS FOR BASIC DESIGN AND FINANCING STUDY FOR THIS PIPELINE. NIGC IS FENDING OFF EFFORTS OF SOVIETS TO DESIGN AND BUILD THIS LINE. RUMOR HAS IT THAT EUROPEAN CONTRACTORS/SUPPLIERS MAY HAVE INSIDE TRACK, BUT NIGC SOURCES ASSURE US FIELD IS STILL OPEN. WE HOPE TO HELP US CONTRACTORS SECURE AT LEAST A SHARE OF THIS \$3-4 BILLION PROJECT. WILLIAMS BROTHERS EXPECTS TO DELIVER FEASIBILITY STUDY/BASIC DESIGN PACKAGE TO NIGC BEFORE END NOVEMBER, AND FINANCE STUDY IN DECEMBER.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NATURAL GAS, POLICIES, DEVELOPMENT PROGRAMS, EXPLORATORY DRILLING
Control Number: n/a
Copy: SINGLE
Draft Date: 30 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975TEHRAN10609
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750377-0041
From: TEHRAN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975108/aaaaagtq.tel
Line Count: 309
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 TEHRAN 4531, 75 TEHRAN 3214, 75 TEHRAN 10960
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 16 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 APR 2003 by BoyleJA>; APPROVED <07 OCT 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REVIEW OF NATIONAL GAS POLICY AND PROJECTS
TAGS: ENRG, IR, UR, GE, AU, JA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006